
Operational Services Agreement

BETWEEN

BAY STATE GAS COMPANY

AND

NORTHERN UTILITIES, INC.

Effective Date

January 1, 2003

TABLE OF CONTENTS

ARTICLE I. *Definitions*

ARTICLE II. *Description of Operational Services*

ARTICLE III. *Computation of Compensation*

ARTICLE IV. *Computation of Direct Salary Charges*

ARTICLE V. *Process for Payment*

ARTICLE VI. *Inspection of Records*

OPERATIONAL SERVICES AGREEMENT

This Agreement is made as of January 1, 2003 by and between Bay State Gas Company (hereinafter called "Bay State") and its wholly owned subsidiary, Northern Utilities, Inc. (hereinafter called "Northern"). Bay State and Northern, collectively referred to herein as the "Companies".

The Companies are corporate affiliates in the NiSource Inc. System, which is comprised of NiSource Inc. and its corporate subsidiaries. Bay State and Northern each maintains an organization of personnel experienced in the operations of public utilities together with appropriate facilities and equipment through which each is prepared to furnish operational services to the other, as hereinafter provided.

The rendition of such services on a coordinated basis enables the recipients of such services to realize benefits through (1) efficient use of common operating management, personnel and equipment; (2) coordination of analysis and planning; and (3) availability of operating personnel and equipment which they may economically share.

All operating services will be performed at cost, which cost shall be fairly and equitably apportioned among such services, and in compliance with the Securities and Exchange Commission's rules promulgated under the Public Utility Holding Company Act of 1935.

The operational services to be rendered hereunder will be of substantially the same character and kind as each of Bay State and Northern presently perform for itself; and

NOW THEREFORE, Bay State and Northern, in consideration of the mutual agreements hereinafter contained, do hereby severally agree with each other that (1) Bay State and Northern may render to each other and Bay State and Northern will purchase from each other the operational services hereafter described at cost, and (2) the payments made by Bay State and Northern to each other hereunder shall be apportioned between their respective Bay State-Massachusetts (All), Bay State-Lawrence, Maine and New Hampshire retail service areas as appropriate and set forth in Schedule A, Exhibits 1, 2, and 3.

1. *Agreement to Furnish Services.* The operational services (and related equipment and materials) furnished hereunder shall be upon the terms and conditions set forth in Schedule A, which is attached hereto and constitutes a part hereof, such of the services described in Article II of said Schedule A, at such times, for such periods and in such manner, may from time to time be requested. Bay State and Northern will maintain organizations sufficient to render with efficiency and reasonable promptness such of the services described in Article II of said Schedule A as may reasonably be requested, but neither shall be obligated to perform any services hereunder without reasonable notice.

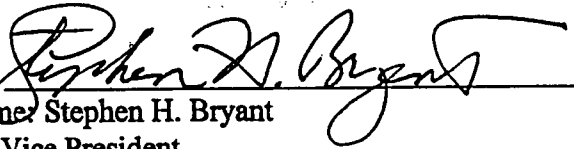
2. *Termination.* Either party hereto may terminate its participation in this Agreement upon not less than thirty (30) days' written notice to the other party; provided, however, that this Agreement shall be terminated automatically (i) to the extent that

performance under this Agreement may conflict with any rule, regulation or order of the Securities and Exchange Commission adopted before or after the making of this Agreement, or (ii) if this Agreement shall become invalid or illegal under any state law or under any rule, regulation or order of any state commission or other state body having jurisdiction in the premises.

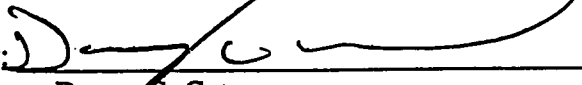
3. *Regulatory Approval.* The parties hereto acknowledge that this Agreement shall not become effective until all required regulatory approvals have been obtained. The amounts of compensation, charges for service, price or any other amount to be paid by Bay State for services rendered by Northern shall be subject to review and determination by the Massachusetts Department of Telecommunications and Energy in any proceeding brought under section ninety-three or ninety-four of M.G.L. Chapter 164.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

BAY STATE GAS COMPANY

By: 
Name: Stephen H. Bryant
Its: Vice President

NORTHERN UTILITIES, INC.

By: 
Name: Danny G. Cote
Its: General Manager

Schedule A

**Operational Services Available to Client
Methods of Charging Therefor and
Miscellaneous Terms and Conditions of Operational Services Agreement**

ARTICLE I. *Definitions*

The term "Operational Services Agreement" shall mean an agreement, of which this Schedule A constitutes a part, for the rendition of operational services and furnishing of related equipment and materials.

1. The term "Client" means the corporation (Bay State or Northern) to which operational services may be rendered under this Operational Services Agreement.
2. The term "Companies" means Bay State and Northern.

ARTICLE II. *Description of Operational Services*

The operational services and facilities which Bay State or Northern is prepared to render and furnish, as requested from time to time by the Client, are set forth in general terms below. The details listed under each heading are intended to be illustrative rather than inclusive and are subject to modification from time to time in accordance with the state of the art and the needs of the Client.

1. *Operations and Maintenance.* Advise and assist Client in obtaining all needed expert operations and maintenance ("O&M") services as may be required to plan for the construction, operation, maintenance and repair of the Client's facilities in order to serve customers and meet the demands of the Client's gas distribution system. Examples of such O&M services may include, but are not limited to, the following activities: billing, maintenance of customer records, data entry, call center, revenue recovery, gas dispatch, field dispatch, scheduling, storage of equipment and materials, engineering, the supervision of construction of new mains and services of the distribution system, the analysis, design and planning for gas operation and distribution functions, the construction, maintenance and operation of gas distribution system, the maintenance of gas appliances and equipment, energy products and services, demand side management services, inventory management, transportation operation services, operational development, safety and any other operational functions which either Bay State or Northern is capable of supplying the other.

Schedule A

2. ***Budget and Financial Services.*** Advise and assist the Client in matters involving the preparation and development of operating and capital budgets and budgetary controls. Prepare and implement plans for financing the capital needs of the Client.
3. ***Marketing and Advertising.*** Advise and assist the Client in the preparation and use of advertising and marketing, managing the development of residential, commercial and industrial business, and carrying out sales activities.
4. ***Metering Services.*** Advise and assist the Client in connection with all aspects of meter reading, testing, replacement and calibration. Advise and assist with planning, installation and operation of radio networks, remote control and other electronic or automated metering devices and methodologies.
5. ***Employee Services.*** Advise and assist the Client in connection with employee relations matters, including recruitment, employee placement, training, compensation, safety, labor relations and health, welfare, employee benefits, and other human resource-related activities.
6. ***Office Space.*** As may from time to time be available, provide suitable office space for the use of the Client and its officers and employees.
7. ***Officers.*** The Companies may elect to any office of Bay State and/or Northern any officer or employee of Bay State or Northern. Services rendered to the Client by such person as an officer shall be billed to the Client and paid for as provided in Articles III and IV.
8. ***Miscellaneous Services.*** Render to Client such other operational services, not hereinabove described, and any administrative services related to operational services as may properly be rendered by the Companies to such Client within the meaning and intent of the Public Utility Holding Company Act of 1935 and any other applicable statutes and the orders, rules and regulations of the Securities and Exchange Commission and any other governmental bodies having jurisdiction, as from time to time the Companies may be equipped to render and such Client may desire to have performed. The Companies may provide additional services, modify or exclude any of the described services as may be required in the future for the proper operation of Bay State and Northern.

Schedule A

ARTICLE III. *Computation of Compensation*

The amounts that the Client shall pay to the service provider (Bay State or Northern, as applicable) shall be determined as provided in this Article III.

All Operational Services

1. *Specific Direct Salary Charges to Client*

To the extent that time spent by the employees of Bay State or Northern engaged in rendering operational services to the specific Client, a direct salary charge, computed as provided in Article IV, shall be made to such Client.

2. *Apportioned Direct Salary Charges to Client*

To the extent that the time spent by such officers and employees is related to services rendered to Bay State and Northern generally, a direct salary charge, computed as provided in Article IV, shall be made to the appropriate Client generally, and allocated to the appropriate Clients on an equitable basis. See Attachment 1 of Schedule A for a list of the allocation bases to be used to distribute charges for Operational Services provided by or to Northern or Bay State, except for charges relating to Operational Services rendered by or to Bay State's Lawrence Division. See Attachment 2 of Schedule A for a list of the allocation bases to be used to distribute charges for Operational Services rendered by or to Bay State's Lawrence Division. See Attachment 3 of Schedule A for illustrative examples of the allocation bases and methods to be used to distribute charges for Operational Services specifically associated with the Inside Sales Group (e.g., Cost Center 05500), Gas Sales Management and Inside Sales Representatives (e.g., Cost Center 03500), Gas Sales and EP&S Management (e.g., Cost Center 05315), and Marketing and Advertising (e.g., Cost Center 03315). The data used for each basis will be updated semi-annually.

3. *Apportionment of Employee Benefits*

The employee benefit expenses which are related to direct salary charges made pursuant to sub-paragraphs (1) and (2) of Article III shall be apportioned based on a percentage of total benefits to total labor dollars.

Schedule A

4. *Other Expenses*

All expenses, other than salaries and employee benefit expenses, incurred by Bay State or Northern in connection with services rendered to a specific Client, such as travel expenses, shall be charged directly to the Client. All such expenses incurred by Bay State or Northern in connection with services rendered to Bay State and Northern generally, as described below, shall be apportioned in the manner set forth in subparagraph (2) of this Article III for the apportionment of salary charges. Such other general expenses ("Overhead") may include: rents; depreciation; amortization; interest; taxes; non-productive time of employees; compensation of employees performing office service functions; costs of general office supplies; charges for utility, maintenance and similar services; program fees and other fees; and all other such expenses normally treated as Overhead.

ARTICLE IV. *Computation of Direct Salary Charges*

The direct salary charge per hour which shall be made for the time of any employee for services rendered in any calendar month shall be computed by dividing his total compensation for such month by the aggregate of (1) the number of scheduled working hours for which he was compensated, including hours paid for but not worked, and (2) hours worked in excess of his regular work schedule, whether or not compensated for.

ARTICLE V. *Process for Payments*

1. *Statement of Charges*

As soon as practicable after the close of each month Bay State or Northern may issue to the Client an Invoice or make the appropriate inter-company journal entries (collectively a "Bill") with supporting Detail of Charges which will itemize the amounts due from the Client for Services, and other expenses for such month, computed pursuant to Articles III and IV. All amounts so billed shall normally be paid by the Client by the end of the month following the provision of such Operational Services and reflected as journal entries on the appropriate Client's General Ledger. To the extent required by law, all Bills rendered by Bay State or Northern to the Client shall be accompanied by a statement showing the manner in which such charged was determined and the cost to the Company of the service rendered.

Schedule A

2. *Information to be Furnished*

The Client will forward to the service provider from time to time, as requested, such financial and statistical information as the service provider may need to compute the charges payable by such Client upon such basis as may have been specified pursuant hereto.

ARTICLE VI. *Inspection of Records*

Each party agrees to keep its books and records available for inspection at all reasonable times by representatives of the Client in order that the correctness of the charges made hereunder for services to the Client may be verified by the Client.

* * * * *

Schedule A
Attachment 1
April-03

Bay State Gas Company & Northern Utilities Three-Part Formula Used to allocate certain shared costs between Bay State and Northern Based on 2002 Data (in thousands)				
Bases For Allocation	Bay State	New Hampshire	Maine	Total
(1) Gross utility plant less goodwill % of Total	\$ 716,407,661 81.04%	\$ 88,515,163 10.01%	\$ 79,110,438 8.95%	\$ 884,033,262 100.0%
(2) O&M net of Total management costs % of Total	\$ 60,309,678 85.96%	\$ 5,617,642 8.01%	\$ 4,230,291 6.03%	\$ 70,157,611 100.0%
(3) Number of retail customers % of Total	274,454 84.58%	25,491 7.86%	24,561 7.57%	324,506 100.0%
Total %	251.58%	25.88%	22.55%	300.0%
% of Total	83.9%	8.6%	7.5%	100.0%
Calculation of O&M Costs (Non-BSG Management Fee Costs)	Bay State	New Hampshire	Maine	Total
O&M per financial books	\$ 95,029,555	\$ 9,461,368	\$ 7,935,545	\$ 112,426,468
less 2002 BSG allocated costs	\$ (10,449,135)	\$ (1,410,118)	\$ (1,250,481)	\$ (13,109,734)
less 2002 Northern allocated costs	\$ (288,711)	\$ (74,036)	\$ (137,937)	\$ (500,684)
less -company 12 Costs	\$ (23,982,031)	\$ (2,359,572)	\$ (2,316,836)	\$ (28,658,439)
O&M net of BSG Mgmt Costs	\$ 60,309,678	\$ 5,617,642	\$ 4,230,291	\$ 70,157,611
% of Total	86.0%	8.1%	6.0%	100.0%

Schedule A
Attachment 2
April-03

Northern Utilities, Inc. & Bay State Gas - Lawrence Division <u>Two-Part Formula</u> Used to allocate certain shared costs between BSG - Lawrence, NULME and NULNH Based on 2002 Data				
Bases for Allocation	Lawrence	New Hampshire	Maine	Total
(1) Gross utility plant less goodwill	\$ 92,350,879	\$ 88,515,163	\$ 79,110,438	\$ 259,976,480
% of Total	35.5%	34.0%	30.4%	100.0%
(2) Number of retail customers	44,063	25,491	24,561	94,115
% of Total	46.7%	27.1%	26.1%	100.0%
Total %	82.2%	61.1%	56.5%	200.0%
% of Total	41.1%	30.6%	28.3%	100.0%

Schedule A
Attachment 3
Page 1 of 4
April-03

Bay State Gas Company
3 Northern Utilities
Cost Center 05500 Formula
Used to allocate certain shared costs
between Bay State and Northern
Based on 2002 Data

Bases For Allocating Non-Advertising Costs	New			
	Bay State	Hampshire	Maine	Total
New Meters - 3 States	3674	606	398	4678
% of total	79%	13%	9%	100%
New Meters - 2 States	3674	606		4280
% of total	86%	14%		100%

Bases For Allocating FTE Positions		Mgr BUS Cir 01st Rep - Total FTE's		
Acct #	Description	10	13.5	14.5
518593	Capital -Rentals	5%	5%	0.73
641525	Inc State -Mdse	0%	0%	0.00
	Supervision-Labor			
687914	C/S Supervision-Labor	0%	0%	0.00
687927	Ind/Lab O&M Svc Wk	5%	5%	0.73
689422	Rntl Maint-Admin Salary	10%	10%	1.45
691100	New Business	80%	0%	0.80
	Supervision			
691600	Sales Misc	0%	80%	10.80
Total FTE's				14.50

Cost Center 05500 Allocation Results					
Non-Advertising Costs					
		Bay State	NH	ME	
3 State Allocation		79%	13%	9%	
2 State Allocation		86%	14%		
Acct #	Description	Total FTE's			
518593	Capital -Rentals	0.73	0.57	0.09	0.06
641525	Inc State -Mdse	0.00	0.00	0.00	0.00
	Supervision-Labor				
687914	C/S Supervision-Labor	0.00	0.00	0.00	0.00
687927	Ind/Lab O&M Svc Wk	0.73	0.62	0.10	0.00
689422	Rntl Maint-Admin Salary	1.45	1.14	0.19	0.12
691100	New Business	0.80	0.63	0.10	0.07
	Supervision				
691600	Sales Misc	10.80	8.48	1.40	0.92
		14.50	11.44	1.89	1.17
Final Allocation Percentages		79%	13%	9%	

Schedule A
Attachment 3
Page 2 of 4
April-03

Bay State Gas Company
& Northern Utilities
Cost Center 05315 Formula
Used to allocate certain shared costs
between Bay State and Northern
Based on 2002 Data

Bases For Allocating Non-Advertising Costs	Bay State	New Hampshire	Maine	Total
New Meters - 3 States	3674	606	398	4678
% of total	79%	13%	9%	100%
New Meters - 2 States	3674	606		4280
% of total	86%	14%	0%	100%

Bases For Allocating FTE Positions		Director	CA Rep	KA Rep	Total FTE's
		1.0	2.0	1.0	4.0
Acct #	Description				
518593	Capital-Rentals	5%	0%	0%	0.05
641525	Inc State -Mdse	0%	0%	0%	0.00
	Supervision-Labor				
687914	C/S Supervision-Labor	3%	0%	0%	0.03
687927	Ind/Lab O&M Svc Wk	0%	0%	0%	0.00
689422	Rntl Maint-Admin	3%	0%	0%	0.03
	Salary				
691100	New Business	90%	100%	100%	3.90
	Supervision				
691600	Sales Misc	0%	0%	0%	0.00
Total FTE's					4.00

Cost Center 05315 Allocation Results Non-Advertising Costs					
			Bay State	NH	ME
3 State Allocation			79%	13%	9%
2 State Allocation			86%	14%	0%
Acct #	Description	Total FTE's			
518593	Capital -Rentals	0.05	0.04	0.01	0.00
641525	Inc State -Mdse	0.00	0.00	0.00	0.00
	Supervision-Labor				
687914	C/S Supervision-Labor	0.03	0.03	0.00	0.00
687927	Ind/Lab O&M Svc Wk	0.00	0.00	0.00	0.00
689422	Rntl Maint-Admin	0.03	0.02	0.00	0.00
	Salary				
691100	New Business	3.90	3.06	0.51	0.33
	Supervision				
691600	Sales Misc	0.00	0.00	0.00	0.00
		4.0	3.16	0.62	0.33
Final Allocation Percentages			79%	13%	9%

Schedule A
Attachment 3
Page 3 of 4
April-03

Bay State Gas Company
& Northern Utilities
Cost Center 03500 Formula
Used to allocate certain shared costs
between Bay State and Northern
Based on 2002 Data

Bases For Allocating Non-Advertising Costs	Bay State	New Hampshire	Maine	Total
New Meters - 3 States	3674	606	398	4678
% of total	79%	13%	9%	100%
New Meters - 2 States	3674	606		4280
% of total	86%	14%	0%	100%

Bases For Allocating FTE Positions		Mgr/Instal	B/D Rep	Rtg/Dat	Total FTEs
Acct #	Description	10	10	10	30
518593	Capital -Rentals	10%	0%	0%	0.10
641525	Inc State -Mdse	90%	0%	0%	0.90
	Supervision-Labor				
687914	C/S Supervision-Labor	0%	0%	0%	0.00
687927	Ind/Lab O&M Svc Wk	0%	0%	20%	0.20
689422	Rntl Maint-Admin	0%	0%	0%	0.00
691100	New Business	0%	100%	80%	1.80
	Supervision				
691600	Sales Misc	0%	0%	0%	0.00
Total FTE's					3.00

Cost Center 03500 Allocation Results Non-Advertising Costs					
		Bay State	NH	ME	
3 State Allocation		79%	13%	9%	
2 State Allocation		86%	14%		
Acct #	Description	Total FTE's			
518593	Capital -Rentals	0.10	0.08	0.01	0.01
641525	Inc State -Mdse	0.90	0.77	0.13	0.00
	Supervision-Labor				
687914	C/S Supervision-Labor	0.00	0.00	0.00	0.00
687927	Ind/Lab O&M Svc Wk	0.20	0.17	0.03	0.00
689422	Rntl Maint-Admin	0.00	0.00	0.00	0.00
691100	New Business	1.80	1.41	0.23	0.15
	Supervision				
691600	Sales Misc	0.00	0.00	0.00	0.00
		3.0	2.44	0.40	0.16
Final Allocation Percentages					

Schedule A
Attachment 3
Page 4 of 4
April-03

Bay State Gas Company & Northern Utilities Cost Center 03315 Formula Used to allocate certain shared advertising and marketing costs originating in Cost Centers 03500, 05315, & 05500 Based on 2002 Data			
	Bay State	NH	ME
Guardian Care Campaign Distribution	92%	8%	0%